

Ventas Inc. (VTR)

\$42.59 (As of 08/10/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: D

Summary

Ventas' better-than-expected results for the second quarter reflect same-store cash NOI growth in triple-net leased and medical office segments. Notably, the resumption of elective procedures across the company's medical office markets will likely enable it to enjoy stable rent receipts. Efforts to bolster liquidity and solidify the balance sheet in these uncertain times are strategic fits. Over the long term, Ventas remains well-poised to capitalize on the growing demand for healthcare assets amid rising healthcare spending. Yet, the operating environment for senior housing remains challenging, with move-outs outpacing move-in trends and reduced in-person tours. This will continue to hurt occupancy and revenues at the company's seniors housing segments. Further, shares of Ventas have underperformed its industry in the past year.

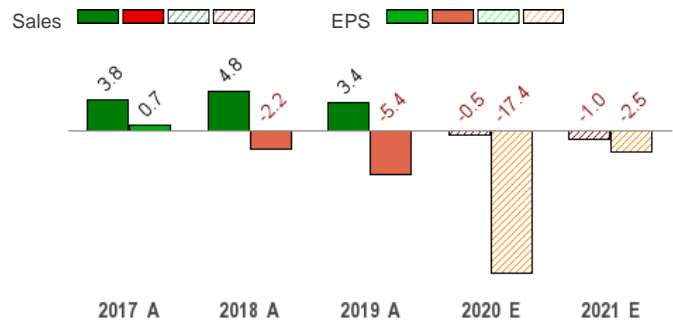
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.40 - \$13.35
20 Day Average Volume (sh)	2,881,903
Market Cap	\$15.9 B
YTD Price Change	-26.2%
Beta	1.06
Dividend / Div Yld	\$1.80 / 4.2%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 16% (213 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.5%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	10/23/2020
Earnings ESP	0.4%
P/E TTM	11.7
P/E F1	13.4
PEG F1	5.7
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	935 E	935 E	941 E	947 E	3,816 E
2020	1,012 A	943 A	940 E	928 E	3,855 E
2019	943 A	951 A	983 A	996 A	3,873 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.75 E	\$0.79 E	\$0.80 E	\$0.82 E	\$3.10 E
2020	\$0.97 A	\$0.77 A	\$0.74 E	\$0.74 E	\$3.18 E
2019	\$0.99 A	\$0.97 A	\$0.96 A	\$0.93 A	\$3.85 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

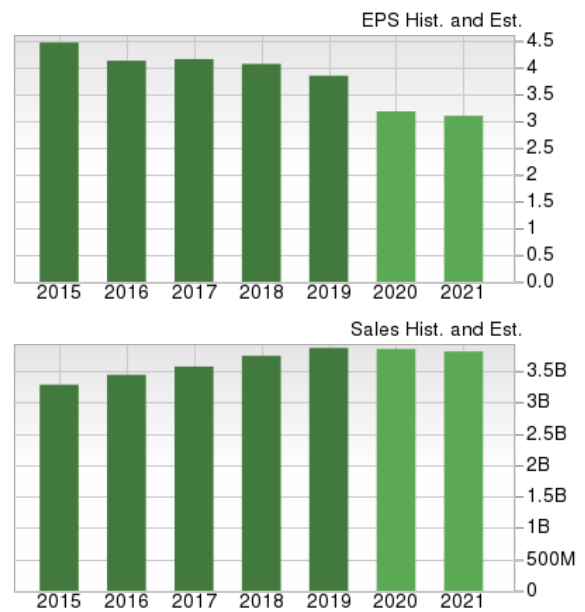
Chicago, IL-based Ventas, Inc. is a healthcare real estate investment trust (REIT) that is mainly engaged in the acquisition and ownership of senior housing, research and innovation (R&I) as well as healthcare properties, and leasing them to unaffiliated tenants or operating them through independent third-party managers.

This S&P 500 company has a diverse portfolio of nearly 1,200 properties located in the United States, Canada and the U.K. These properties include seniors housing communities, medical office buildings (MOBs), R&I centers, inpatient rehabilitation facilities, long-term acute-care facilities, and health systems. The company also had 20 properties under development as of Jun 30, 2020.

Ventas offers MOB management, leasing, marketing, facility development and advisory services to well-rated hospitals and health systems throughout the United States through its ownership interest in PMB Real Estate Services LLC and the company's subsidiary, Lillibridge Healthcare Services, Inc. It also makes secured and non-mortgage loans and other investments relating to senior housing and healthcare properties or operators.

As of Jun 30, 2020 Ventas mainly operated through three reportable segments — triple-net (NNN) leased properties (generated 38.6% of net operating income or NOI in second-quarter 2020), senior-living operations (26.4%) and office operations (30.3%). Corporate assets such as cash, restricted cash, loans receivable and investments, and miscellaneous account receivables are reported under the "all other" segment (4.7% of NOI as of second-quarter 2020).

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ The national healthcare expenditure is expected to rise in the upcoming years. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared with the average population. Hence, with an expectation of a rising senior citizens' population in the years ahead, Ventas has a strong upside potential, being well-poised to capitalize on this expenditure trend of senior citizens on healthcare services. Moreover, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid volatility in the market. This is because even amid tough economic conditions, consumers need to spend on healthcare services while curtailing discretionary purchases.
- ▲ Ventas is focusing on assets in high-barrier-to entry coastal markets. The company's senior housing operating portfolio ("SHOP") assets are located in elite markets that enjoy stronger demographics trends and increasing penetration rates, positioning it to generate steady cash flows. The company completed or committed to nearly \$4 billion of new investments in 2019. In addition, the market for seniors' housing and healthcare real estate is large and fragmented, offering a huge scope of consolidation. This provides a solid opportunity for this healthcare REIT.
- ▲ Amid favorable demographics and growing outpatient trends, the company is focusing to capture the upside with its office segment, which includes MOBs, academic medical as well as R&I businesses. The company's 2019 investments included five outstanding R&I development projects affiliated with top-tier new and existing university partners totaling nearly \$1 billion. The company also has a robust development pipeline. Such investments offer Ventas the opportunity to capitalize on the growing healthcare-driven research and development, supported by top-tier research universities. Increasing longevity of the aging U.S. population, along with biopharma drug development growth opportunities, have also promoted the institutional life science and medical-market fundamentals. Further, long-lease terms and top-rated, institutional quality tenants assure steady growth in cash flows for Ventas. The company received 99% and 97% of second-quarter and July office contractual rent, respectively. Moreover, substantially all of its medical office buildings are in markets that have reopened for elective procedures. This is expected to drive financial performance for the company's medical office tenants.
- ▲ Ventas usually leases its healthcare facilities under NNN leases, where the tenant pays for taxes, insurance and maintenance of the properties, in addition to rent. These long-term net lease properties produce a steady cash flow with escalations, the majority of which are tied to CPI (consumer price index). This insulates the company from short-term market swings that may adversely affect the operations of a particular facility. Hence, its triple-net operation is likely to remain healthy. The company received all of its second-quarter 2020, July and August rents from its NNN tenants.
- ▲ Ventas has a strong balance sheet, and is making efforts to enhance its cost structure, liquidity and financial strength amid these testing times. As of Aug 5, the company had \$3.5 billion of liquidity, consisting of \$0.6 billion of cash and cash equivalents, and \$2.9 billion of available capacity on hand. To strengthen its balance-sheet position amid the virus outbreak, it raised \$0.5 billion in March 2020 through a senior notes offering. In June and July, proceeds from the offering were used to repay primarily all of Ventas' borrowing under its \$3-billion revolving credit facility. The company has also undertaken several capital conservation actions such as reductions in corporate positions, dividend cuts and lower planned capital expenditure. With this, third-quarter 2020 annualized G&A expenses are anticipated to reduce \$25-\$30 million as compared with that reported in 2019. The dividend cut can be viewed as a prudent move to conserve around \$130 million of cash per quarter. Planned 2020 capital expenditure has been reduced by \$0.3 billion to \$0.5 billion. Lastly, with manageable debt maturing in 2020, the company has decent financial flexibility to pursue its growth endeavors.

Ventas' high-quality portfolio is well-poised to gain amid the rising healthcare spending and aging population. Accretive external investments and upside in the office portfolio are positives.

Reasons To Sell:

- ▼ Amid the pandemic, the company's senior living operating and NNN portfolios experienced a negative revenue trend during second-quarter 2020. Specifically, resident move-ins and leads below prior year levels, significant move-outs, and higher operating costs are hindering occupancy, revenues and net operating income at the company's seniors housing assets. These lackluster trends are discouraging for Ventas as 63.5% of its investments are in seniors housing communities. Moreover, occupancy continued to decline in July by 50 basis points since June to 80.1%.
- ▼ Apart from the coronavirus-led occupancy woes, the seniors housing market has been reeling with high-supply conditions in certain markets and rising labor costs. This is a concern for Ventas because elevated supply usually curtails landlords' pricing power and limits growth in occupancy level.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Ventas had remained committed to that. However, the company has made a 43% sequential reduction in the second-quarter dividend to 45 cents per share, which was paid out on Jul 14, 2020, to stockholders of record on Jul 1, 2020. The company paid out a quarterly cash dividend of 79.25 cents per share for its shareholders in the prior quarter.
- ▼ The company also faces tenant concentration risk in its NNN leased property segment. Specifically, properties leased to Brookdale Senior Living, Ardent and Kindred account for a significant part of Ventas' segmental revenues and NOI. Hence, in case of no lease renewal, change in lease agreements or any adverse development in these three tenants, Ventas' financial condition and results will likely be impacted. In fact, in the first half of 2020, the company made significant changes to senior housing triple-net leases with two tenants and this is expected to affect the company's near-term NOI.
- ▼ The company is making efforts to unlock value of its assets through opportunistic disposals of non-core assets. In fact, during the six months ended Jun 30, 2020, the company disposed of a MOB, a senior housing community and a NNN leased property for \$11.5 million. Although such efforts enable it to optimize its portfolio, better manage financial obligations and reinvest in its attractive development pipeline, near-term dilution in earnings reduced cash flows in the near term from the sale of assets is unavoidable. Moreover, in March, Ventas formed a perpetual life vehicle — Ventas Life Science and Healthcare Real Estate Fund, L.P — to focus on investments in R&I centers, medical office and seniors housing real estate asset classes. To seed the fund, the company sold six properties to the fund-generating net proceeds of \$620 million. However, the sale affected its office segment NOI in the second quarter.
- ▼ Ventas operates in a cut-throat market and competes with national and local healthcare operators on a number of factors, including quality, price and range of services provided, reputation, location and demographics of the population in the surrounding area, as well as the financial condition of its tenants and operators. Also, the company's operators contend with peers for occupancy and to manage labor costs. This significantly limits its power to drive its top line as well as crack deals at attractive rates.
- ▼ Shares of Ventas have plunged 40.5% compared with the industry's decline of 4.2% over the past year. Moreover, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as estimates have been revised marginally downward over the past week. Hence, given the above-mentioned concerns and downward estimate revision, the stock has limited upside potential for the upcoming period.

Lower occupancy in senior living assets amid the pandemic, high supply and costs are concerning for Ventas. Dependence on few tenants, and competition with national and local operators are other woes.

Last Earnings Report

Ventas Q2 FFO Beats Estimates, Revenues & NOI Declines

Ventas reported second-quarter 2020 normalized FFO per share of 77 cents, beating the Zacks Consensus Estimate of 73 cents. However, the figure was 21% lower than the year-ago quarter's 97 cents.

The company generated revenues of \$943.2 million in the second quarter, which lagged the Zacks Consensus Estimate of \$974.8 million. The top line also compared unfavorably with the year-ago number of \$950.7 million.

Results reflect a decline in same-store cash NOI. Moreover, the company's SHOP assets were severely impacted by the coronavirus pandemic.

Quarter in Detail

For the second quarter, same-store cash NOI growth for the total property portfolio (1,074 assets) declined 13.6% year over year primarily due to the impacts of the pandemic. Portfolio wise, though same-store cash NOI for the NNN leased portfolio grew 1.4% and the office portfolio rose 2.7%, the SHOP portfolio reported a plunge of 42.7% year over year.

Balance Sheet Position

Ventas exited second-quarter 2020 with cash and cash equivalents of \$992.8 million, up from the \$106.4 million recorded as of 2019 end. Further, as of Jun 30, 2020, its annualized adjusted net debt to EBITDA ratio was 6.3.

To strengthen its balance sheet position amid the virus outbreak, the company raised \$0.5 billion in March 2020 through a senior notes offering. In June and July, proceeds from the offering were used to repay primarily all of Ventas' borrowing under its \$3-billion revolving credit facility.

As a result of the efforts, the company had \$3.5 billion of liquidity, consisting of \$0.6 billion of cash and cash equivalents, \$2.9 billion of available capacity on hand, and no commercial paper outstanding as of Aug 5.

Quarter Ending 06/2020

Report Date	Aug 07, 2020
Sales Surprise	-3.24%
EPS Surprise	5.48%
Quarterly EPS	0.77
Annual EPS (TTM)	3.63

Recent News

Ventas Announces Revision to Master Lease Agreement With Brookdale – Jul 27, 2020

Ventas announced that in light of the challenges to the senior living industry because of the coronavirus pandemic, the company has entered into a revised master lease agreement (the "Brookdale Lease") and other agreements (together with the Brookdale Lease, the "Agreements") with Brookdale Senior Living Inc.

Per the arrangements, Ventas received up-front consideration of roughly \$235 million. This replaces more than two and a half years of the cash rent reduction effectuated under the Brookdale Lease. This comprises \$162 million in cash, \$45 million cash pay note from Brookdale, and warrants exercisable for 16.3 million shares of Brookdale common stock.

Base cash rent, under the Brookdale Lease that covers 121 senior living communities is now set at \$100 million per annum commencing in July 2020, with 3% annual escalators starting on Jan 1, 2022. This compared to \$182 million annualized cash rent paid in first-quarter 2020.

Moreover, Brookdale is transferring full ownership of five senior living properties to Ventas. This is in full satisfaction and repayment of a \$78 million loan to Brookdale from Ventas, which were secured by the five communities. These communities will now be managed by Brookdale for Ventas under a terminable management agreement. Brookdale paid all contractual rent at the previous rate through June 2020 and at the revised rate in July 2020.

Notably, adjusted for the Agreements, Ventas' trailing twelve-month EBITDAR (after a 5% management fee) and EBITDARM cash rent coverage under the Brookdale Lease through Mar 31, 2020 improves to more than 1.3x and 1.6x respectively. Previously reported (on Jun 19, 2020) trailing twelve-month EBITDARM coverage on the Brookdale Lease was reported at between 0.90x and 0.99x and the implied EBITDAR coverage after a 5% management fee would have been roughly 0.8x.

Dividend Update

On Jun 19, Ventas announced second-quarter 2020 cash dividend of 45 cents per share. The dividend was paid out on Jul 14 to shareholders of record as of Jul 1, 2020.

Notably, it represents a 43% sequential decline from first-quarter dividend of 79.25 cents per share. The dividend cut can be viewed as a prudent move to conserve around \$130 million of cash per quarter, relative to the prior dividend level.

Valuation

Ventas' shares have been down 40.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 4.2% and 6.7% in the past year, respectively.

The S&P 500 Index is up 16.4% in the past year.

The stock is currently trading at 13.59X forward 12-month FFO, which compares to 19.58X for the Zacks sub-industry, 16.77X for the Zacks sector and 22.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.29X and as low as 4.71X, with a 5-year median of 14.98X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$45 price target reflects 14.36X FFO.

The table below shows summary valuation data for VTR.

Valuation Multiples - VTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.59	19.58	16.77	22.75
	5-Year High	19.29	19.58	16.77	22.75
	5-Year Low	4.71	14.32	11.59	15.25
	5-Year Median	14.98	16.11	14.26	17.58
P/S F12M	Current	4.15	8.47	6.22	3.66
	5-Year High	7.79	8.47	6.66	3.66
	5-Year Low	1.60	5.97	4.96	2.53
	5-Year Median	5.96	7.00	6.06	3.05
P/B TTM	Current	1.53	2.28	2.47	4.67
	5-Year High	2.75	3.03	2.91	4.67
	5-Year Low	0.60	1.81	1.72	2.83
	5-Year Median	2.07	2.51	2.53	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (213 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Healthcare Realty Trust Incorporated (HR)	Neutral	3
Healthcare Trust of America, Inc. (HTA)	Neutral	3
LTC Properties, Inc. (LTC)	Neutral	3
Medical Properties Trust, Inc. (MPW)	Neutral	4
Omega Healthcare Investors, Inc. (OHI)	Neutral	2
Healthpeak Properties, Inc. (PEAK)	Neutral	3
Sabra Healthcare REIT, Inc. (SBRA)	Neutral	3
Welltower Inc. (WELL)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VTR	X Industry	S&P 500	PEAK	SBRA	WELL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	F	D	F
Market Cap	15.89 B	2.05 B	23.56 B	15.63 B	3.20 B	23.97 B
# of Analysts	6	4	14	8	5	9
Dividend Yield	4.23%	3.86%	1.71%	5.10%	7.70%	4.25%
Value Score	C	-	-	C	B	C
Cash/Price	0.07	0.06	0.07	0.05	0.01	0.08
EV/EBITDA	14.63	14.55	13.39	22.28	14.52	17.08
PEG Ratio	5.60	4.32	2.92	4.45	NA	7.29
Price/Book (P/B)	1.53	1.35	3.18	2.04	0.95	1.42
Price/Cash Flow (P/CF)	10.63	11.32	12.69	19.56	12.59	10.23
P/E (F1)	13.28	15.86	22.16	17.88	9.49	16.87
Price/Sales (P/S)	4.04	5.09	2.55	6.97	5.26	4.82
Earnings Yield	7.47%	5.62%	4.33%	5.58%	10.52%	5.94%
Debt/Equity	1.20	0.92	0.77	0.88	0.73	0.85
Cash Flow (\$/share)	4.01	2.05	6.94	1.48	1.24	5.62
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	-3.35%	0.73%	10.41%	-13.98%	-4.54%	-2.32%
Proj. EPS Growth (F1/F0)	-17.32%	-2.05%	-6.51%	-7.74%	-11.72%	-18.13%
Curr. Cash Flow Growth	13.38%	3.36%	5.26%	-55.20%	-46.74%	28.20%
Hist. Cash Flow Growth (3-5 yrs)	3.38%	12.74%	8.55%	-12.01%	21.58%	9.39%
Current Ratio	1.53	1.62	1.34	1.37	0.85	3.32
Debt/Capital	54.65%	47.90%	44.59%	46.74%	42.21%	46.57%
Net Margin	10.49%	10.49%	10.13%	14.60%	21.00%	26.20%
Return on Equity	3.88%	3.42%	14.59%	4.57%	3.78%	8.64%
Sales/Assets	0.16	0.13	0.51	0.15	0.10	0.15
Proj. Sales Growth (F1/F0)	-0.45%	0.00%	-1.54%	27.34%	-10.87%	-4.90%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	2.58%	1.01%	0.91%	1.47%	0.58%	0.45%
1 Week Price Chg	8.24%	2.69%	2.30%	4.84%	5.16%	6.76%
4 Week Price Chg	22.07%	8.72%	8.54%	10.25%	13.46%	14.83%
12 Week Price Chg	32.02%	14.78%	13.68%	20.66%	15.14%	27.28%
52 Week Price Chg	-40.53%	-17.13%	3.71%	-13.91%	-26.11%	-34.69%
20 Day Average Volume	2,881,903	665,527	2,015,804	3,399,283	1,343,806	2,551,422
(F1) EPS Est 1 week change	-0.22%	0.00%	0.00%	-0.99%	0.00%	-0.68%
(F1) EPS Est 4 week change	2.16%	0.00%	1.67%	-2.04%	-0.12%	-1.83%
(F1) EPS Est 12 week change	6.45%	-0.59%	2.27%	-1.96%	0.98%	-2.61%
(Q1) EPS Est Mthly Chg	0.68%	0.00%	0.67%	-2.83%	1.26%	-3.86%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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